

A G E N D A



Recommendation for Council Action

Austin City Council

Item ID

16232

Agenda Number

101.

Meeting Date:

6/28/2012

Department:

Treasury

Subject

Approve an ordinance authorizing the issuance of City of Austin, Texas, Water and Wastewater System Revenue Refunding Bonds, Series 2012, in an amount not to exceed \$375,000,000 in accordance with the parameters set out in the ordinance, authorizing related documents, and approving related fees. These funds will be used to refund tax-exempt commercial paper and certain outstanding Water and Wastewater Revenue Refunding Bonds including Variable Rate Revenue Refunding Bonds. Refunding these obligations is intended to free a significant portion of the commercial paper credit line for future borrowing needs as well as result in present value savings exceeding the City's target guideline of 4.25%.

Amount and Source of Funding

\$13,640,585 estimated debt service requirement and \$400 annual paying agent/registrar fee will be included in the 2012-13 Proposed Budget of the Utility Revenue Bond Redemption Fund.

Fiscal Note

Purchasing Language:

Prior Council Action:

For More Information:

Art Alfaro, Treasurer, Finance and Administrative Services 974-7882

Boards and
Commission Action:

MBE / WBE:

Related Items:

Additional Backup Information

Austin Water Utility will refund up to \$190,000,000 of Tax-Exempt Commercial Paper. The Tax-Exempt Commercial Paper refunding will allow Austin Water Utility to take advantage of currently favorable market conditions and free a significant portion of the commercial paper credit line for future borrowing needs.

Moreover, Austin Water Utility is asking for approval to refund portions of bonds issued in 2003 and 2004. The reason for this request is that the City's financial advisor, Public Financial Management, Inc., has advised that refunding portions of Water and Wastewater Revenue Refunding Bonds, Series 2003 as well as the Water and Wastewater Variable Rate Revenue Refunding Bonds, Series 2004 will result in present value savings exceeding the City's target guideline of 4.25% of the refunded bonds. As of May 29, 2012, the transaction produced \$8.7 million in present value savings or 4.96%.

The Water and Wastewater Variable Rate Revenue Refunding Bonds, Series 2004 were sold in conjunction with the establishment of an interest rate swap agreement ("swap agreement"). The swap agreement provided the City with fixed payments to a counterparty in exchange for a variable rate receipt, thus reducing the volatility associated with variable rate bonds. In 2004, the issuance of variable rate bonds with a swap agreement enhanced savings because of favorable market conditions for this refunding method. Currently, tax-exempt bond rates are at historic lows which provides the opportunity to terminate the swap agreement and issue fixed rate bonds. The termination will result in a payment to the counterparty. This payment is estimated to be approximately \$16 million as of mid June. The payment will be included in the refunding transaction. The City will save more from refunding the bonds than it will pay for the termination payment over the life of the refunding bonds. The refunding bonds do not exceed the life of the bonds being refunded.

In order to provide the City with the flexibility to quickly respond to changing market conditions, the proposed ordinance delegates the authority to the City Manager or Chief Financial Officer (the "Pricing Officer") to complete the sale of the refunding bond transaction in accordance with the parameters in the ordinance. The parameters stipulate that the Pricing Officer will only execute the sale of the bonds if the City can achieve a present value debt service savings of not less than 4.25%.

The transaction will be sold through the following underwriting team:

Senior Manager:	Goldman, Sachs & Co.
Co-Managers:	BoA/Merrill Lynch
	Estrada Hinojosa (MBE)
	First Southwest
	JP Morgan
	Ramirez & Co. (MBE)
	RBC Capital Markets

Fulbright & Jaworski L.L.P. will serve as bond counsel, McCall, Parkhurst & Horton will serve as disclosure counsel, and Haynes & Boone will serve as underwriter's counsel for this transaction.